

SAE Handbook, Lesson RK. 5

What is an Inventory?

Unit. Record Keeping

Problem Area. What is an inventory?

Student Learning Objectives. As a result of this lesson, the student will...

1. Define Inventory
2. Identify the types of items normally found in an inventory
3. List four reasons for taking an inventory



Time

Instruction time for this lesson: 50 minutes



Resources

<http://www.cals.ncsu.edu/agexed/sae/toolbox/index.html>



Tools, Equipment and Supplies

Writing Surface
Overhead Projector
RK.5.TM.A-C
RK.5.SA.A.
RK.5.Assess
RK.5.PPT (There is also a PowerPoint presentation that contains the material from this lesson. It goes into much more detail than this lesson and contains information on depreciation and differentiates between current and non-current assets.)



Key Terms

The following terms are presented in this lesson and appear in bold italics:

- ***Inventory***



Interest Approach

Activity

To show the importance of the inventory in record keeping, we will do a role playing situation. You may want to repeat this role play 2-3 times if the results don't come as anticipated the first time. In the role play there will be a banker and a student seeking a loan to expand his/her SAE program. The student owns a business making and selling potpourri. The student hasn't made much money, but the key to the role play is that the student has a large inventory of potpourri waiting to be sold. The banker needs to figure this out. Pass out the following role play information to the students who will be doing the role playing.

- You are a banker.
- A student comes to you who has been in agriculture for two years and asks for a loan of \$1,000 to expand his potpourri business. It is early October.
- This person has been in this business for over a year now and has earned only \$250.
- Do you make the loan, deny the loan, or ask for additional information?

Even though the student hasn't earned much money, there is a large inventory of product waiting to be sold. The business can be profitable.

Summary of Content and Teaching Strategies

Objective 1: Define Inventory.

The inventory is an important component of record keeping. Display RK.5.TM.A. and discuss.

RK.5.TM.A.

What is an **Inventory**?

In financial record keeping, an inventory is the company's merchandise, raw materials, and finished and unfinished products which have not yet been sold.

When is an Inventory taken?

Typically, an inventory is taken when a student enters the agriculture program or starts an SAE program.

This inventory serves as a starting point so that a student can determine how much financial progress has been made.

After the beginning inventory, the next inventory is often taken in December of the year after the student starts agriculture classes.

- Student enrolls in agriculture in August of 2004 and takes a beginning inventory.
- The next inventory is taken in December of 2005 and each December thereafter.

The IRS recommends that an inventory be taken at the end of the year, typically in December.

Important Points about the Inventory

The ending inventory for one year serves as the starting inventory for the next year.

The value of the inventory at the start of the year is subtracted from the inventory at the end of the year to help determine if a profit has been made.

The fair market value of the product on hand is used to determine the value of the product on hand.

Objective 2: Identify the types of items normally found in an inventory.

Review the definition of inventory and ask several students to give examples of items that might be included in an inventory. Divide the class into small groups and give the groups 5 minutes to come up with a list of items (assets) that could be included in a typical inventory for an SAE program. After the allotted time, display RK.5.TM.B and review. This transparency contains typical items that could be in an inventory.

RK.5.TM.B

What Items are Typically Included in an Inventory?

- Growing crops
- Harvested crops in storage that are not yet sold
- Equipment
- Feed not yet used
- Seed not planted
- Fertilizer not used
- Agricultural Chemicals
- Livestock
- Land owned by the student
- Scientific equipment
- Greenhouse supplies
- Floral Supplies
- Aquaculture tanks
- 100s of other items

What Items are Typically NOT Included in an Inventory?

For agricultural SAE record keeping, we often don't include personal property. However, this varies from state to state. Depending upon the state in which you live, the following items may or may not be included in the inventory:

- CD players
- Jewelry
- Clothing
- Personal vehicles
- Hunting and Fishing Equipment
- Compact Discs
- Cell phones

OBJECTIVE 3: List four reasons for taking an inventory.



Why should an inventory be taken?

Ask several students why inventories are taken. Display RK.5.TM.C and discuss.

RK.5.TM.C.

Of What Value is an Inventory?

Helps to determine whether or not the business is making a profit –

- It is possible that you may not have sold anything yet, but the fact that you have products on hand that could be sold indicates the business may be profitable.

Helps in making management decisions –

- Perhaps there is a surplus of some items that need to be sold. Or, you may not need to buy any more feed or fertilizer for a while.

May be needed to get credit –

- The inventory presents a truer picture of the financial condition of an enterprise. A person may not have much money on hand but may have a large inventory of products to be sold.

Used to determine net worth –

- In the next lesson, we will look at financial statements that are used to determine your net worth. The inventory enters into that calculation.

Can be used to determine fraud –

- Inventories are used to determine if employees are dishonest. If you buy 100 products to sell, have records that only 50 items have been sold, but can only count 20 items in the inventory, you know that 30 items are missing.

How does one go about conducting an inventory?

Write the following points on the writing surface and discuss.

How Does One Take an Inventory?

- An inventory is very simple.
- You make a list of items on hand (count or weigh the items) that have not yet been used up or sold and then determine their value.
- Then add up that list.



Review/Summary

Ask students to define the word inventory in their own words. Distribute RK.5.Asses



Application

Extended Classroom Activity:

Have students ask their parents if an annual inventory is conducted where they work and how it is conducted.

FFA Activity:

Make a list of assets that the FFA chapter would have if they conducted an inventory.

SAE Activity:

Have the students complete the beginning inventory section of their SAE record book.

Evaluation:

RK.1.Assess

Answers to Assessment:

1. An inventory is the company's merchandise, raw materials and finished and unfinished products which have not yet been sold.
2. D – December
3. Growing crops, harvested crops in storage that are not yet sold, equipment, feed not yet used, seed not planted, fertilizer not used, agricultural chemicals, livestock, land owned by the student, scientific equipment, greenhouse supplies, floral supplies and aquaculture tanks are all examples of what could be listed in an inventory.
4. Helps to determine whether or not the business is making a profit, helps in making management decisions, may be needed to get credit, used to determine net worth and can be used to determine fraud.
5. We can not conclude that Sam's business is a failure. He may have a large inventory of products that can be sold at a profit.

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RK.5.SA.A

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Inventory

1. Define Inventory. (3 points)

___ 2. Typically, an inventory is conducted in: (2 points)

- A. February
- B. April
- C. July
- D. December

3. List five items that might be found in an inventory. (5 points)

4. List four reasons why one should conduct an inventory. (4 points)

5. Sam started his new business in October and has invested \$300 in it. He buys and sells equipment (brushes, halters, etc.) used in showing livestock. As of December 31, he has sold only \$125 worth of equipment. Can we conclude his business is a failure? Why? (5 points)